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DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/JDIEMOND  
TREASURY FOR OAISA/JRALYEA/BCUSHMAN  
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SUBJECT: SOUTH AFRICA CONTINUES FOREX CONTROL LIBERALIZATION

REF: 04 PRETORIA 5105

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11. (U) Summary. In a recent address to Parliament, Finance Minister Trevor Manuel announced the liberalization of foreign exchange controls for banks and investment companies. This announcement, made during his October Medium Term Budget Policy Statement, was in line with South Africa's gradual liberalization of forex controls. Banks will be able to commit up to 40% of their domestic capital outside the country, with a 20% limit on assets outside the African continent. Once the South African Reserve Bank (SARB) has announced the effective date, banks could leverage up to R48 billion (\$7.4 billion) in foreign markets. Investment companies were immediately able to increase their foreign exposure to 25% of total assets. No changes on forex controls for individuals were announced. Noting that the costs of foreign exchange controls may now exceed their benefit, SARB Governor Tito Mboweni has suggested that all controls be abolished. Notwithstanding, Manuel seems intent on sticking to Treasury's policy of gradual liberalization. End Summary.

Forex Controls Lifted For Banks and Investment Companies  
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12. (U) In his Medium Term Policy Budget Statement on October 25, Finance Minister Trevor Manuel announced the liberalization of foreign exchange controls for banks and investment companies. Banks will be able to commit up to 40% of their domestic capital outside the country without South African Reserve Bank (SARB) approval, with a 20% limit on assets outside the African continent. This means that local banks could leverage up to R48 billion (\$7.4 billion) in foreign markets, allowing them to compete on an equal footing with most international banks. The move also helped to level the playing field between ABSA (now owned by Barclays) and the other major South African banks. Previously, banks had to apply for a special exemption from the SARB to operate freely outside South Africa. The new measures are set to take effect once the government, the SARB, and banks have agreed on an appropriate reporting system.

13. (U) The new foreign exposure limits will regulate both on and off-balance sheet bank assets. Transactions will include underwriting foreign currency denominated bonds, lending foreign currency to non-residents, issuing

guarantees, and investing in foreign bonds, shares, and other assets. For the first time, South African banks will be allowed to extend foreign currency denominated loans to pay for approved South African company foreign direct investment.

¶4. (U) Manuel also gave investment companies a break on forex controls. After the announcement, mutual fund managers were immediately able to increase their foreign exposure to 25% of total retail assets, up from 20%. Investment fund managers were also able to invest 25% of assets abroad, up from 15%. These measures enable South African residents to diversify their portfolios through domestic channels and allow South African investment funds to play a bigger role in the development of the African continent.

¶5. (U) Manuel's announcement was another step in the gradual process of forex control liberalization that started in 1995 (reftel). National Treasury maintains that it will continue with this gradual process in the future. Treasury's stated goal is to scrap all controls and replace them with limits on the amount of foreign exchange that can be taken offshore at any one time.

#### No Change For Individuals

¶6. (U) No changes to exchange controls on individuals were proposed. The current R750,000 (\$115,000) limit on the amount of money that individuals may transfer abroad remains. Manuel pointed out that the number of applicants applying to take out more than R750,000 was "miniscule," but that removing individual forex controls would likely be the

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next step. Before this can happen, government must terminate its amnesty program, scheduled for the end of ¶2005. South Africans who illegally moved or kept assets offshore after apartheid are allowed to pay an amnesty tax to repatriate funds or maintain their assets offshore legally.

#### Mboweni Speaks Out

¶7. (SBU) SARB Governor Tito Mboweni has publicly advocated that the government should consider abolishing what appear to be "purposeless" forex controls, pointing out that "the cost of exchange control administration and the inconvenience that goes with managing (them) might not be worth the exercise." Mboweni argued that further liberalization of forex controls at this time would boost confidence in the South African economy and likely lead to capital inflows. [Comment: Mboweni has become increasingly vocal of late, calling for labor reform and a U.S.-style Council of Economic Advisors for South Africa. These public forays beyond the spheres of monetary policy have South Africans speculating about Mboweni's future political ambitions. His current term as SARB Governor expires in ¶2009. End Comment.]

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